

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

SHUTTLE EXPRESS, INC.,

Petitioner and Complainant,

v.

SPEEDI SHUTTLE WASHINGTON, LLC

Respondent.

DOCKET NOS.

TC-143691

TC-160516

INTRODUCTION

OPENING TESTIMONY OF PETITIONER/COMPLAINANT

SHUTTLE EXPRESS, INC.

BY

PAUL KAJANOFF

December 21, 2016

1 **Q: Please state your full name and business address.**

2 A: Paul Kajanoff. 800 SW 16th Street, Renton, Washington 98057

3 **Q: By whom are you employed and in what capacity?**

4 A: I am the President of the Petitioner and Complainant in this docket, Shuttle Express, Inc.

5 **Q: Describe your responsibilities and duties in your current position.**

6 A: I am responsible for company strategy, goals, plans, procedures, appointment of managerial
7 roles, and overall company performance

8 **Q: Summarize briefly your qualifications and past business experience.**

9 A: I have had over 20 years in various leadership positions – several in finance arena; licensed
10 CPA since 6/26/2003 (WA #15874 expires 6/30/2019); and six years of transportation
11 experience. I was hired by Shuttle Express as Director of Finance in November of 2010
12 and made President in August of 2014.

13 **Q: Does Shuttle Express have an auto transportation certificate issued by the**
14 **Commission?**

15 A: Yes, Certificate No. C-975.

16 **Q: Could you please give us a high-level summary of the trends in overall trips by auto**
17 **transportation certificate holders serving King County from Sea Tac airport?**

18 A: Yes. The share ride and schedule service trips out of Sea Tac Airport have been on a pretty
19 consistent annual decline since 2012 as shown in the table below:

20

1

TABLE 1
Annual Speedishuttle and Shuttle Express Trips
Out of Sea Tac Airport

2012	2013	2014	2015	2016*
77,174	71,019	67,374	61,438	55,657
<i>Change</i>	<i>(6,155)</i>	<i>(3,645)</i>	<i>(5,936)</i>	<i>(5,781)</i>
<i>% Change</i>	<i>-8%</i>	<i>-5%</i>	<i>-9%</i>	<i>-9%</i>

* Based on annualized totals through October 2016

2 **Q: Why are you only showing outbound trips?**

3 A: We asked for more detailed statistical data on Speedishuttle's trip and passenger counts in
4 Data Request No. 6. Speedishuttle objected to that request, and provided no useful data.

5 The ALJ denied our request to compel a substantive response. The data above came from a
6 public records request to the Port of Seattle ("Port"). Because Speedishuttle and Shuttle
7 Express both pay a concession fee to the Port each time they make a trip *from* the airport
8 carrying passengers, we report outbound trips. My understanding is that Speedishuttle
9 reports automatically, using transponders. In our experience, the trend in trips from year-
10 to-year or month-to-month are roughly the same for inbound (to the airport) as for
11 outbound.

12 **Q: Could you break this down by carrier and by month?**

13 A: Speedishuttle and Shuttle Express outbound trip totals by month are shown below:

14

1

TABLE 2

Month	Speedishuttle		Shuttle Express		Combined Trips	
	2015	2016	2015	2016	2015	2016
Jan		986	5,038	3,585	5,038	4,571
Feb		834	4,140	3,097	4,140	3,931
Mar		1,011	4,680	3,680	4,680	4,691
Apr		901	4,870	3,518	4,870	4,419
May	471	1,210	4,974	3,715	5,445	4,925
Jun	548	1,322	4,697	3,963	5,245	5,285
Jul	985	1,350	4,727	4,046	5,712	5,396
<i>Aug</i>	<i>1,438</i>	<i>1,232</i>	4,582	3,678	6,020	4,910
<i>Sep</i>	<i>1,404</i>	<i>1,285</i>	4,094	3,006	5,498	4,291
<i>Oct</i>	<i>1,198</i>	<i>1,141</i>	3,856	2,821	5,054	3,962
Nov	1,012		4,001		5,013	
Dec	996		3,727		4,723	
	8,052	11,272	53,386	35,109	61,438	46,381

2

3 Speedishuttle has shown a decline in its year-over-year monthly trip totals beginning in
 4 August of 2016 with a total of 1,438 trips compared to 1,285 in 2015; a decrease of 14
 5 percent. Indeed, the decline for Speedishuttle has continued as September and October
 6 decreased by eight and five percent respectively.

7 **Q: Has the entry of Speedishuttle into the share ride market increased the overall**
 8 **number of trips?**

9 A: Speedishuttle's entrance into the existing share ride market has done nothing to slow the
 10 longstanding decline in trips nor are there any signs of any new market that Speedishuttle
 11 claimed would be served by their unique business model. The only impact of Speedishuttle

1 in the existing market place has been to dilute the economies of scale for both Shuttle Express
2 and Speedishuttle.

3 **Q: Has Shuttle Express been unable to keep up with the demand for its door-to-door**
4 **services?**

5 A: No. Shuttle Express has shown it can successfully perform 77,000 outbound trips annually
6 to the satisfaction of the commission with the infrastructure that existed in 2012 and would
7 be able to do same for the estimated 55,000 trips for 2016.

8 **Q: Have you analyzed data that would show the impact of the entry of Speedishuttle into**
9 **the market on the services that were already being offered by Shuttle Express?**

10 A: Yes. Shown below are Shuttle Express passenger reservations from the zip codes served by
11 Shuttle Express; and Speedishuttle as of 5/1/2016:

12 **TABLE 3**

Period	Start	End	Inbound	Outbound	Total Res	Change	Change
1	05/01/13	04/30/14	117,671	133,101	250,772		
2	05/01/14	04/30/15	108,661	123,611	232,272	(18,500)	-7%
3	05/01/15	04/30/16	76,969	86,318	163,287	(68,985)	-30%

13
14 Periods 1 and 2 occurred before Speedishuttle entered the market. Period 2 compared to
15 period 1 shows a reservation decline of seven percent, which is consistent with the average
16 decline in reported trips for several years. Period 3 is the first full year of operation for
17 Speedishuttle and compared to period 2 the decline in reservations is 30 percent. Shuttle
18 Express would have expected a decline of 10 percent given overall trips out of the airport
19 without Speedishuttle in the market place. The difference in a decline of 30 versus 10 percent
20 is approximately 45,000 reservations or \$1,100,000 of revenue.

1 **Q: Your Petition and Complaint talks about below cost or “predatory” pricing by**
2 **Speedishuttle. Do you have any evidence of that, and have you done any analysis that**
3 **supports those claims?**

4 A: Yes. First, due to the delay in receiving financial statements from Speedishuttle, I created a
5 pro forma based on reservation information provided by discovery; Port records; the
6 Speedishuttle pro forma submitted with the initial application; and the 2015 Annual WUTC
7 report filed by Speedishuttle. I compared the data from these then available records to make
8 sure the numbers seemed reasonable, based on my experience as a CPA and based on our
9 own operations. A summary is attached as Exh. ___ (PK-2). After I had done a complete
10 pro forma I received a financial statement prepared by Speedishuttle in response to the ALJ’s
11 discovery ruling.

12 **Q: Please tell us what your pro forma showed.**

13 A: Shown below is the condensed estimated income statement based on the limited information
14 available:

15 **TABLE 4**

Estimated Income Statement for Speedishuttle
for the 17 months ending 9/30/16

Revenue	\$1,884,072	100%
Variable Costs	\$1,351,454	72%
Fixed Costs	\$888,726	47%
Interest & Depreciation	\$387,054	21%
<u>Net Profit</u>	<u>(\$743,162)</u>	<u>-39%</u>

1 The actual revenue provided by Speedishuttle was reasonably close to my estimate. Based
2 on my pro forma and estimate, Speedishuttle is losing \$0.39 on every dollar of revenue that
3 it collects.

4

5 **Q: Please say what you can about how Speedishuttle's actual financial statement and**
6 **data compared to your estimates?**

7 A: Speedishuttle eventually provided financial information, as I mentioned. But due to the
8 confidentially agreement that Speedishuttle required as a condition of providing its
9 financials, I cannot include the actual data in my testimony. However, I can address what
10 the financials show at high level without disclosing specific data, however. First, according
11 to Speedishuttle's financial statement, their actual loss per dollar of revenue for the 17
12 months presented was materially greater than my estimate of \$0.39. My estimate of their
13 losses was conservative. Second, as noted above, my estimates for Speedishuttle gross
14 revenue were close Speedishuttle's actual revenue. But the reason my pro forma understated
15 their losses so significantly is that Speedishuttle's actual expenses were significantly greater
16 as a percent of revenue than my estimate. So they are competing with us at a significant loss.
17 And, despite losing money, they price the areas that they provide the most service to at fare
18 that is lower than ours.

19

20 **Q: As a CPA, did you see any problems with how Speedishuttle presented its financial**
21 **statement in response to the ALJ's ruling?**

22 A: Yes. The segregation of periods presented in any set of financial statements must be relevant
23 and representative of the true financial position of the company based on the needs of the

1 intended recipient. It would have been more appropriate for Speedishuttle to present year
2 end 2015 and year to date 2016; or the first five months as the start-up phase and then the
3 next 12 months that would reflect annual operations and seasonality. Instead, Speedishuttle
4 presented the first 12 months of its operations, commencing May 1, 2015, and then the next
5 five months covering May 1, 2016 to September 30, 2016.

6 **Q: Why is Speedishuttle's presentation a problem, from an accounting perspective?**

7 A: Because it enables Speedishuttle to continue to misrepresent the financial health and success
8 of their operations by presenting the five busiest months of the year, as evidenced by the
9 outbound trips for 2016 as reported by Speedi. The five month average between May and
10 September of 1,280 trips is 14 percent higher than the 10 month average of 1,127. This is
11 material misrepresentation as defined by Generally Accepted Accounting Principles. The
12 GAAP definition of "material" is based on if the reader of the financial statement would
13 make a different decision when presented with the variance. Their skewed presentation
14 suggest that their trips are increasing and their losses are decreasing from their startup year.
15 Neither of those facts is true. It only looks that way because the five months that make up
16 their second reported period contains the busy summer travel season, but excludes the seven
17 slowest travel months of October to April. Our counsel informally asked their counsel for
18 financial statements that would comport with GAAP, but they refused to provide them.

19 **Q: Did their skewed presentation of the five busiest months of the year as their second**
20 **period enable them to avoid showing a loss?**

1 A: Not even close. It did enable them to show a smaller loss. But despite the misrepresentative
2 presentation of the five busiest months of the year, Speedishuttle still showed a significant
3 overall loss.

4 **Q: In submissions in this docket relating to the discovery dispute over producing its**
5 **financial statements, Speedishuttle referred to its losses as “startup” losses. In your**
6 **opinion, can Speedishuttle realistically become profitable in this market by**
7 **significantly growing its revenues?**

8 A: No, not unless they take away so many more of our passengers that it puts Shuttle Express
9 into a huge loss position. This is illustrated first by the fact that even using the five busiest
10 months as a basis for their current profit and loss still shows them losing a significant
11 percentage of every dollar of revenue. Next, we know from a year and a half of experience
12 with their supposed “different” service that they are not attracting any new demographic at
13 all. In hindsight it is clear that their entry and initial rapid growth was fueled almost 100%
14 by their wholesale contracts with agents who had previously used Shuttle Express, not non-
15 English speakers booking on their Asian language websites. The only way they could grow
16 revenues is to take more of our existing passengers. Next, we know that Speedishuttle is not
17 increasing its passenger counts. They are now declining, just like we are. Finally, in regard
18 to revenue growth that would lead to increased costs as well, such as UTC fees and B&O
19 taxes, which are based on revenue.

20 **Q: What about increasing fares to increase revenue?**

1 A: That is possible theoretically, but very unlikely in the real world. Based on my pro forma
2 estimate loss of \$0.39 per dollar of revenue, Speedishuttle would need to increase fares by
3 45 percent to breakeven; this increase would need be materially higher based on their
4 financials. Because Speedishuttle and Shuttle Express serve the same passengers and
5 demographics, who tend to be price-sensitive, if Speedishuttle raises their fares significantly
6 they will lose passengers to us. Also, Speedishuttle mostly serves downtown Seattle hotels
7 and cruise terminals. The viable price range for share ride service is very narrow, because it
8 is less convenient for passengers than a dedicated vehicle and they have so many options. If
9 either Shuttle Express or Speedishuttle raise their prices much, they will lose customers to
10 cabs, Uber, light rail, and private cars, to name a few. All of these options—made relatively
11 cheaper recently by low-priced gasoline—are the most likely reason we have had such
12 persistent declines in ridership for several years.

13 **Q: Can they make up the losses in volume?**

14 A: Not based on anything we have seen so far. Based on my pro forma estimate loss of \$0.39
15 per dollar of revenue, Speedishuttle would need to increase passengers per trip by 45 percent
16 to breakeven; this increase would need to be materially higher based on their financials.
17 Even when presenting the best five months, Speedishuttle reported less revenue for the
18 twelve months ending 4/30/16 than the twelve months shown on their initial pro forma. And
19 to achieve less revenue than projected they had to use 18 vans instead of the five they
20 projected, greatly increasing their variable and fixed costs. And Speedishuttle per passenger
21 revenue reported in 2015 was \$18.38 which was 15 percent higher than the \$16.00 shown in

1 their initial pro forma. Thus, Speedishuttle is already receiving more revenue per passenger
2 and is still unable to reach overall revenue projections based on five vehicles shown in their
3 submitted pro forma versus the 18 they currently own.

4 **Q: Even showing losses as they do, do you believe Speedishuttle's financial statement is**
5 **accurate and complete?**

6 A: No. We believe Speedishuttle is not reflecting all of the true expense related to labor.
7 Speedishuttle is a franchisee of the GO Group and therefore must pay \$15.00 per hour for
8 any employee while they work within the Seattle city limits per the City of Seattle minimum
9 wage law. We also believe Speedishuttle is not abiding by the City of SeaTac minimum wage
10 laws which require an employee earn \$15.00 per hour in 2015 and \$15.24 in 2016. These
11 amounts are material and would increase the loss per dollar of revenue by about \$0.10 based
12 on my pro forma

13 **Q: In your opinion, could Speedishuttle's pro forma have led to conditions or results,**
14 **including injury to Shuttle Express, that the Commission would not or could not have**
15 **anticipated or considered at the hearing on Speedishuttle's initial application?**

16 A: Yes. It is now clear from the pro forma submitted in their initial application and the most
17 recent financials that Speedishuttle was not forthright in representing a financial position
18 indicative of the business model they presented at the initial hearing. In regard to the balance
19 sheet, Speedishuttle stated they would start with five vehicles and their pro forma indicated
20 no change from the five vehicles for the first twelve months. Five vehicles would certainly
21 make sense to the Commission given the supposedly unique business model presented at the

1 initial hearing. However, by the end of July 2015—just 3 months since they started
2 operating—Speedishuttle had already acquired 18 vehicles; 360% more than presented in
3 their pro forma. As noted above, it can be seen in hindsight that the growth occurred because
4 instead of serving a supposedly unserved and unique demographic, they immediately took a
5 very large share of Shuttle Express’s customer base. They did this by setting up a kiosk at
6 the airport from the start of their operations to take walk-up passengers and by entering into
7 wholesale ticketing agreements with the same wholesale agents who had previously worked
8 with Shuttle Express. In the case of GO Group, our largest wholesaler, Speedishuttle got an
9 exclusive agreement, replacing Shuttle Express with Speedishuttle completely. Thus, instead
10 of the small, niche operation of five vans by reservation only as represented, within just a
11 few months they had 18 vans and a kiosk right next to ours in the airport garages to solicit
12 walk-up passengers.

13 **Q: As part of your analysis and investigation for this case, did you look at whether**
14 **Speedishuttle is effectively serving all of King County, as it sought to do?**

15 A: Yes, I did.

16 **Q: What prompted you to do that?**

17 A: We received a couple of points of data in our investigation and in response to our discovery
18 that seemed inconsistent with service to the whole county. First, they reported average
19 revenue per passenger to the Commission of \$18.38. This number is barely more than their
20 tariffed fare to the downtown Seattle hotels and cruise terminals. And it is substantially less
21 than their fares to most of the rest of the county, such as Bellevue (more than double),
22 Issaquah (more than triple), or North Bend (more than 10 times higher). The average

1 indicates they are serving mostly downtown Seattle, with very little to no service to suburban
2 or rural King County. Next, their supplemental response to Data Request No. 9 stated that
3 85% of their outbound walk-up traffic went to downtown Seattle, most to cruise piers and
4 hotels we have served for years. The 85% figure is a significantly higher percentage than
5 our percentage of service to downtown Seattle compared to the rest of the county.

6 **Q: Did this lead you to do any further analysis of the passengers and trips that Shuttle**
7 **Express has lost to Speedishuttle?**

8 A: Yes, it did. I took a more granular look at where we were losing our business, rather than
9 just focusing on the overall decline caused by Speedishuttle. I compared losses in the Seattle
10 downtown core that appears to be Speedishuttle's primary focus. I found that Shuttle Express
11 reservations were down 59% in the downtown Seattle core in Speedishuttle's first full year
12 of operation compared to 5/1/2014 through 4/30/15; the 12 month period prior to
13 Speedishuttle entering the market. This compares to a decline of just 44% in the rest of the
14 Speedishuttle zip codes served in competition with us and 23% in the areas we serve the that
15 Speedishuttle does not serve.

16 **Q: How could Speedishuttle avoid serving most of the county and primarily serve**
17 **downtown Seattle?**

18 A: There are several ways. The most obvious, which I realized as soon as I started looking at
19 this issue, is the fare structure. They undercut our fare to downtown Seattle by about 9%.
20 As noted above, this indicates they are pricing below cost to gain market share in the most
21 lucrative part of the market. But in most of the rest of the county there fare is about 13%
22 higher than ours. This could be to ensure that they don't have to carry so many of the higher-

1 cost passengers. Next, all their marketing seems to emphasize the downtown core and does
2 not mention the bedroom communities. And all available data indicates that most of their
3 passengers come from wholesale booking agents who serve non-residents. Non-residents
4 are typically going to hotels and cruise ships. There are subtle ways, too, like telling a walk-
5 up passenger that the wait to go to North Bend will be 45 minutes to an hour to fill the van.

6 **Q: How does their focus on downtown Seattle impact Shuttle Express?**

7 A: As I noted above, our analysis showed that our losses of passengers were much greater to
8 downtown Seattle than the Eastside or suburban and rural areas and communities. In other
9 words, we lost most of our business to the highest-volume, lowest-cost locations to serve.
10 We kept most of our business to the lowest-volume, highest-cost locations to serve. We
11 need the revenues from the high-volume locations if we are to be able to continue to serve
12 the rest of the county.

13 **Q: Please tell us more about Shuttle Express's loss of the GO Group to Speedishuttle**
14 **immediately upon Speedishuttle's entry into the market.**

15 A: Sure. The GO Group is a sub S corporation consisting of member companies that provide
16 ground transportation across the United States. Speedishuttle and Shuttle Express have been
17 long time members of the GO Group. Shuttle Express cancelled their franchise agreement
18 with the GO Group in 2014. But Shuttle Express did not cancel the wholesale agreement.
19 To the contrary, Shuttle Express reached out to the GO Group to renew the wholesale
20 agreement for 2015. However the GO Group decided not to renew the agreement. Instead,
21 the GO Group chose to sponsor Speedishuttle by providing support testimony from the

1 president of GO Group in Speedishuttle's initial application. In their testimony,
2 Speedishuttle denies membership in the GO Group and that they only have a wholesaler
3 agreement. This is not true. Speedishuttle has the GO logo on their vehicles and receives
4 roughly 30 percent of their revenue from the GO Group. Based on the average annual Shuttle
5 Express revenue of \$300,000 received from the GO Group wholesale agreement prior to May
6 2015, Speedishuttle receives about 30% of its gross revenue from tickets sold by the GO
7 Group. Of course, had Speedishuttle not been granted a certificate, the GO Group could have
8 continued to sell tickets to travel on Shuttle Express. But as soon as Speedishuttle got its
9 certificate, new bookings from the GO Group dropped to zero and Speedishuttle began to
10 carry those same passengers that used to ride Shuttle Express.

11 **Q: Do you question the character of Speedishuttle and should the Commission consider**
12 **their character in fashioning a remedy in this docket?**

13 A: Yes, I do.

14 **Q: Why?**

15 A: Lots of reasons. At a high level, it starts with the totality of the nature of service they
16 proposed, which they led the Commission to believe would be different than ours and
17 targeted so some niche of supposedly unserved tech-savvy passengers from China, Japan,
18 and Korea who were incapable of booking on an English language website. We can see
19 now that the whole premise of their application and consequent grant of authority was
20 simply not true. We strongly suspect that the whole case was a fabrication. The best and
21 most obvious example was the testimony that they would not serve "walk-up" passengers.

1 But they made sure they were set up to do just that on their very first day of service at
2 SeaTac. And the fact that four months after we asked for their correspondence from 2014
3 and 2015 that would show their true intentions, true business plan, and true target
4 passenger demographic they still had not produced a single document until last Friday,
5 after a two rulings by the ALJ. We know such documents exist, as we have seen a small
6 segment of them from our public records request to the Port (some of which are attached to
7 Mr. Marks' testimony). The request should not have been hard. The inference is they are
8 trying to hide something.

9 **Q: Anything else?**

10 A: Yes, lots of small stuff that adds up. Their misleading financials and refusal to provided
11 financials that comport with GAAP, as discussed above, is an example. Then there have
12 been a number of instances of unethical behavior by employees that Speedishuttle appeared
13 to direct or sanction. One of the most serious was a former Shuttle Express employee who
14 went to work for Speedishuttle that was rummaging through our location at the airport and
15 said he was doing so because Speedishuttle was taking over the area. In another,
16 Speedishuttle was granted access to Island 2 which is to be shared with Shuttle Express.
17 Once they received permission to use Island 2, Speedishuttle staff told Shuttle Express
18 employee they were no longer allowed to use Island 2. Again, we had to report this to
19 airport management.
20 Then there is their luring of our employees who they require to sign non-compete
21 agreements. A former Shuttle Express dispatcher went to Speedishuttle and then left
22 Speedishuttle. The dispatcher was rehired by Shuttle Express and then Speedishuttle

1 threaten to file suit against the dispatcher and Shuttle Express because the dispatcher signed
2 a two year non-compete agreement. We tried to explain the dispatcher's knowledge came
3 from the 10 years he worked at Shuttle Express, not Speedishuttle. Speedishuttle still
4 threatened to sue and we had to let the dispatcher go. Speedishuttle even has every driver
5 sign the same non-compete agreement; which is highly unusual and not justifiable. Drivers
6 don't possess trade secrets that would justify a non-compete agreement.
7 Finally, Speedishuttle is aggressive and reckless in their hiring practices. A Shuttle Express
8 driver came to me to discuss pay stating that he was interested in going to Speedishuttle.
9 The discussion was not about his hourly pay, it was about how many hours he could work.
10 I said there are legal restrictions on how many hours a driver can be on duty and that I
11 cannot and will not compete against illegal activity. The driver understood and went to
12 work for Speedishuttle anyway.

13 **Q: Are you asking the Commission to rule on these practices?**

14 A: Not in this proceeding. But the Commission needs to understand that Speedishuttle
15 presented itself as a responsible operator of a premium service. But experience has shown
16 they cannot be taken at their word.

17 **Q: Does this conclude your testimony?**

18 A: Yes, it does.